

Industry Circular



Internal Revenue Service
Alcohol, Tobacco, and Firearms Division
Washington, D.C. 20224

Industry Circular 71-11

May 12, 1971

VIRGIN ISLANDS SPIRITS UNDER SECTION 5232, I.R.C.

Proprietors of distilled spirits plants,
importers, and others concerned:

Purpose. The purpose of this circular is to inform you that Treasury Decision 7111, adding Subpart F to 26 CFR Part 170, Miscellaneous Regulations Relating to Liquor, was published in the Federal Register for May 11, 1971.

Background. Subpart F of 26 CFR Part 170 implements the provisions of section 5232 of the Internal Revenue Code, as amended by Public Law 91-659, effective May 1, 1971. Section 5232 was amended to permit the transfer of distilled spirits produced in the Virgin Islands, in bulk containers of 5 gallons or more capacity, from customs custody to internal revenue bond, without payment of the internal revenue tax (including rectification tax, if any) imposed by section 7652, I.R.C.

Under the amendment of section 5232, Virgin Islands spirits transferred to internal revenue bond (1) may not be bottled in bond under section 5233, I.R.C., (2) may be redistilled or denatured only if 185 degrees or more of proof, and (3) may be withdrawn for any purpose authorized by chapter 51, I.R.C., in the same manner as domestic spirits.

Details of Regulations. Generally, the provisions of 26 CFR Part 250 as to actions to be taken prior to the shipment of Virgin Islands spirits to the United States, including the filing of formulas, as they relate to such spirits to be released from customs on tax determination are applicable to such spirits to be released from customs for transfer to internal revenue bond.

A proprietor who wishes to withdraw Virgin Islands spirits for transfer to his bonded premises must first furnish a consent of surety on his bond, Form 2601, to cover such withdrawal and transfer, if his bond was effective before May 1, 1971.

The Form 2609 procedure for the withdrawal of imported spirits from customs custody and the Form 236 procedure for the transfer of such spirits to internal revenue bond are generally adopted for the withdrawal and transfer of Virgin Islands spirits. The regulations specify procedures for the transfer, identification, mingling in bond, and storage in and withdrawal from bond; and provide information pertaining to claims relative to Virgin Islands spirits.

The customs officer will inspect and, if necessary, gauge spirits before he releases them for transfer to internal revenue bond.

Containers that are filled at a distilled spirits plant with Virgin Islands spirits shall, in addition to the marks prescribed by 26 CFR 201.516 or 201.526, bear the serial number of the approved formula under which the spirits were produced, and the words

"VIRGIN ISLANDS" or the abbreviation "V.I."

The name of the producer in the Virgin Islands will be the means of identifying Virgin Islands spirits in the required warehouse records, summaries, and all deposit, transfer, and withdrawal forms, where such forms require the name of the producer, blender, or warehouseman to be stated. The forms and records shall also be marked to show "VIRGIN ISLANDS" or "V.I.," the formula number under which the spirits were produced, whether rectification tax applies, and the applicable rate of any rectification tax.

Virgin Islands spirits may not be mingled or blended in bond with spirits that were not produced in the Virgin Islands, and rectified Virgin Islands spirits may not be mingled or blended with unrectified Virgin Islands spirits, or with Virgin Islands spirits subject to a different rate of rectification tax. Rectified Virgin Islands spirits subject to the same rate of rectification tax may be mingled or blended, and unrectified Virgin Islands spirits may be mingled or blended, if they are homogeneous, or if they are to be immediately tax determined and removed to bottling premises exclusively for use in taxable rectification.

Applications for tax determination of Virgin Islands spirits shall be prominently marked with the words "VIRGIN ISLANDS" on all copies. If the spirits are subject to rectification tax under section 7652, I.R.C., such tax shall be reported on Form 179 as "other tax due," and shall be identified as rectification taxes imposed under section 7652 in the "remarks" on the form. Rectification taxes shall be included with distilled spirits taxes on the returns filed on Form 2521, 2522, or 4077, and in the record of tax liability prescribed in 26 CFR 170.62.

The provisions of section 5008, I.R.C., respecting spirits samples and spirits lost while in internal revenue bond, shall apply to Virgin Islands spirits. Claims for spirits lost in bond shall, in addition to the information required in 26 CFR 201.43, show the name of the producer and the serial number and date of the Form 27-B Supplemental under which produced. The provisions of section 5008, respecting the loss or voluntary destruction after removal from bond on tax determination, return to bond, or return to bottling premises of spirits shall not apply to Virgin Islands spirits, since such provisions pertain only to spirits on which the taxes are imposed under chapter 51, I.R.C. In computing loss allowance under the provisions of 26 CFR 201.486 (ineligible ingredients), Virgin Islands spirits shall be considered the same as "other than spirits withdrawn from bond by the proprietor of the bottling premises"; and for the purposes of 26 CFR 201.492 (inventories), they shall be considered as "other spirits."

Inquiries. Inquiries regarding this circular should refer to its number and be addressed to your Assistant Regional Commissioner, Alcohol, Tobacco and Firearms.



Rex D. Davis, Director
Alcohol, Tobacco and Firearms Division